



Republican Policy Committee

Don Nickles, Chairman Doug Badger, Staff Director 347 Russell Senate Office Building (202)224-2946

September 29, 1995

President Clinton: The Naked Emperor of Medicare

"The Democrats have fabricated the Medicare-tax cut connection because it is useful politically. It allows them to attack and duck responsibility, both at the same time. We think it's wrong."
[Washington Post, "Medagogues, Cont'd," lead editorial, 9/25/95]

Even the *Washington Post* sees what is obvious — or rather invisible — to everyone following the debate over Medicare's solvency: the White House has no plan to save Medicare and evidently no intention of producing one. In short, the emperor has no clothes.

In order to draw attention away from this embarrassing display of political exhibitionism, the President is desperately trying to claim that Congress' Medicare reform proposal is being used to pay for much-needed tax cuts. The truth is just the opposite: Congress cannot and will not use Medicare savings for anything but the Medicare program because the Medicare program is financed from trust funds. Any slowdown in the rate of increased spending and any premium income either stays there or goes there. That's the law. The President should know better than to claim otherwise — the *Washington Post* does.

Further, the proposal now in the Senate Finance Committee goes a step further by instituting a "lock box" mechanism to insure that every cent of savings resulting from reform will stay with the Medicare program by being placed into the Part A trust fund. This is actually stronger than the current law.

The Medicare-Tax Cut Fabrication: Part I

"If they weren't proposing a tax cut, we wouldn't need to cut Medicare so much."

[Alice Rivlin, OMB Director, NBC's "One on One," with John McLaughlin 9/15/95]

"The GOP is cutting Medicare to pay for tax cuts for the wealthy."
[President Clinton, *Washington Post*, 9/16/95]

You'd think that nearly six months would be sufficient time for the folks in the Clinton Administration to get around to reading their own Medicare Trustees' report, especially since four of the six trustees are Administration officials. As everyone but the White House seems to know by now, the verdict of the trustees is that the Medicare Hospital Insurance (HI or Part A) trust fund begins running a deficit as early as FY 1996 and will go broke after FY 2002. The Trustees stated: *"The HI program is severely out of financial balance in the short range The Trustees believe that prompt, effective, and decisive action is necessary"* [1995 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, 4/3/95, pages 2-4].

That is the problem that the White House refuses to face, but Congress must. Congress' response has been **not to cut but to simply slow the rate of growth** to twice the expected rate of inflation over the next seven years. Because of the trust fund nature, slowing the rate of increase means the money that would have been spent will stay in the trust fund. As the Trustees' HI Report states:

"Income not currently needed to pay benefits and related expenses is held in the HI trust fund. The assets of the fund may not be used for any other purpose."

[Trustees HI Report, 4/3/95, p.1; emphasis added]

As the Trustees make quite clear, the money in the trust fund stays in the trust fund. That's the law. It is not available to pay for tax cuts as the White House claims — even if the HI did not need the money to avoid bankruptcy.

The Medicare-Tax Cut Fabrication: Part II

The President himself conceded the obvious and (tacitly) that he was in error:

"So all this conversation we have heard about saving the trust fund — give them their due. When they're talking about holding back money from Part A to the hospitals and the doctors, they're telling the truth. That will go into the trust fund."

[Legis-Late, Clinton Addressing Seniors, Washington, DC, 9/15/95]

Yet, the President's failure in his initial effort simply resulted in his switching to a more strident and desperate tone. Having conceded the argument on Part A, the President turned his attention to a different tactic in hopes of taking prisoners there. The President in the same speech goes on to say:

"[T]he extra cost to seniors, by law, will not go into the trust fund. You know it and I know it, and everyone in America should know it. Every nickel that will be taken from seniors will go into the general fund, where it

will be used to carry out this seven-year plan, which includes a very large tax cut....[T]he money they ask for from the seniors won't go into that trust fund, and no one must be allowed to believe that it does..."

The President was apparently referring to Medicare Part B, but he was wrong in his assertions because Part B, like Part A, is also financed through a trust fund and, once again, its funds are protected by law. While the Federal Supplementary Medical Insurance Trust Fund (SMI) is different in many respects to HI, it is similar in that it is financed through its own trust fund as the Medicare Trustees spell out:

"The Federal SMI Trust Fund was established on July 30, 1965, as a separate account in the United States Treasury. All the financial operations of the SMI program are handled through this fund."
[Medicare Trustees SMI Report, 4/3/95, p. 29]

"The SMI program is comparable to yearly renewable term insurance, with financing from premium income paid by the enrollees and from income contributed from general revenue by the federal government."
[Trustees SMI Report, p. 16]

"The trust fund holds all of the income not currently needed to pay benefits and related expenses. The assets of the trust fund should always be sufficient to cover the claims that have been incurred by enrollees but not yet paid by the program and, also, to provide an appropriate contingency level in case actual costs exceed projected. The assets of the trust fund may not be used for any other purpose..."
[Trustees SMI Report, p. 1, emphasis added]

The two trust funds are also similar in one other respect...their financial difficulty.

"...The Trustees note with great concern the past and projected rapid growth in the cost of the program....Growth rates have been so rapid that outlays of the program have increased 53 percent in aggregate and 40 percent per enrollee in the last 5 years. For the same time period, the program grew 19 percent faster than the economy despite recent efforts to control the cost of the program....The Trustees believe that prompt, effective, and decisive action is necessary."
[Trustees SMI Report, p. 3, emphasis added]

What the Medicare Reform Plan Will Do

When House Minority Leader Gephardt said, "Let's promise to make Medicare savings and reforms only to preserve Medicare itself..." [Washington Post, 9/25/95, letter to the editor], he was stating the condition that already exists by law and would

not only not change but be strengthened under Congress' proposal.

The *only* link between Medicare reform and tax cuts exists in the White House's rhetoric.

In contrast to the White House's factual errors, Congress' Medicare reform proposal:

- * Responds to the whole Medicare crisis — in both Part A and Part B — because the whole system is in financial trouble. In the words of the Trustees in both the HI and SMI reports: *"The Trustees believe that prompt, effective, and decisive action is necessary."*

- * Does not cut Medicare spending, but limits its increase to twice the rate of inflation over the next seven years.

- * Assures that the money intended for the trust funds goes to the trust funds — just as it always has under the law.

- * Assures that any Medicare money not spent stays with the program because of the trust funds. In the words of the Trustees in both the HI and SMI reports: *"The assets of the trust fund may not be used for any other purpose..."*

- * Assures that any money seniors are asked to pay under the Part B portion of Congress' Medicare reform proposal will either go in the trust fund or stay in the trust fund. This is the current law and it is strengthened by the Senate Finance Committee's proposed "lock box" mechanism.

- The "lock box" further ensures that every single cent saved or paid stays in the Medicare program — never has this guarantee been more clear than it is under this proposal.

- * Assures that the Part B trust fund remains as separate from general revenues as the Part A trust fund -- that is, resources from Part B are no more available to fund a tax cut than are the Part A trust funds.

The *Washington Post* was right when it said *"The Democrats have fabricated the Medicare-tax cut connection because it is useful politically."* The White House's transparent rhetoric and naked opportunism is as indecent as it is obvious.

Staff Contact: J.T. Young, 224-2946